



# INTERNATIONAL LABOUR ORGANIZATION'S ROLE ON MINIMUM WAGE POLICY AND THEIR IMPACTS ON WORLD COUNTRIES

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## ABSTRACT

The inadequate and unfair wages paid to the workers is the critical issue in all over the world. The minimum wage ensures not merely the physical needs of worker which would keep him just above the starvation but ensure his subsistence of his family as well. The term "minimum Wages" is used to refer to those rates which are fixed by a process invoking the authority of state and below which wages cannot legally fall. This paper discussed aims and objectives of International Labour Organization (ILO) for framing minimum wage policy for whole world. The minimum wage is the subject of substantial theoretical as well as political controversy. This paper highlights certain Conventions and Recommendations which adopted by ILO for framing the standard setting principle for fixing minimum wage policy. The guideline of ILO's Conventions and Recommendations on minimum wages helps world countries to framed effective and sound minimum wage policy for their economic development.

## INTRODUCTION:

Wage is monetary compensation paid by employer to employee for any type of work which is mental or physical in nature. The wage differential is the important subject of whole world. The inadequate and unfair wages paid to the workers is the critical issue in all over the world. The Labour who contribute for production under the industry and indirectly help the Nation for industrial development which is essential development of every Nation for economic development therefore workers must get adequate and fair wage. Therefore the wage must pay to the Labour in fair, regular, in time and without dedication which fulfilled the basic needs.

The proper and fair wages not only fulfils the labour basic needs but also is required other things which includes education of children, protection against ill health, requirements of essential social needs and insurance against old age etc. which are important for his family. The International Labour Organization (ILO) must keen attention on this subject because inadequate wages affect the production, decrease the efficiency and reduced the productivity which affects the National economical progress. Hence ILO works on this subject in detail in various conventions and framed concept of wages to protect the labour economically in the world market.

### International Labour Organization (ILO) on the concept of fair wage, living wage and minimum wage:

International Labour Organization under first Annual Meeting adopted the general principles under Article 427 of the Treaty of Versailles that, "labour should not be regarded merely as a commodity or article of commerce" and as a result human labour should be viewed as a commodity subject of the laws of supply and demand, not and in times of unemployment should not be subjected to inadequate wages brought about by abundance of labour.<sup>1</sup>

The original Constitution of the International Labour Organization, established in 1919, listed "the provision of an adequate living wage" among the improvements in conditions of labour urgently required to combat social unrest and promote peace. It specified as an objective for member States "the payment to the employed of a wage adequate to maintain a reasonable standard of life as this is understood in their time and country". The 1944 Philadelphia Declaration concerning the aims and purposes of the International Labour Organization affirmed that "poverty anywhere constitutes a danger to prosperity everywhere" and advocated world programmes that will achieve "a minimum living wage to all employed and in need of such protection". Therefore as part of a basic-needs development strategy, wage policies should "ensure minimum levels of living".<sup>2</sup>

The Preamble to the ILO Constitution of 1919 proclaims the urgency of improving conditions of labour through, among other measures, "the provision of an adequate living wage". While there is no universally accepted definition of a living wage, the idea behind it is that workers and their families should at least be able to lead a simple but decent life considered acceptable by society, in light of its level of economic development. They should be able to live above the poverty line and participate in social and cultural life. The concept of a living wage, therefore, refers both to the existence of a minimum level of remuneration and to an acceptable standard of living. This expression is not easy to translate in French or Spanish without altering the meaning. The term *salair minimum convenable* (appropriate minimum wage), which echoes the Preamble of the Constitution, has sometimes been used. Some authors refer to a *salair de subsistence* (living wage), sometimes acknowledging that "even the term 'living wage' is misleading in some ways, since workers are able to 'live' when paid a sub-living wage. A poorly

paid worker could work overtime, have several jobs and/or be supported by another family member. This term, however, only imperfectly translates the concept of a living wage, which takes into account both the subsistence needs of workers and their families, such as food and housing, as well as social and cultural needs, such as education and leisure. To avoid ambiguity, the Committee has therefore decided to use the term *living wage* in all the language versions of this General Survey.<sup>3</sup>

The term "living wage" was first used in the 1800s, as scholars and activists argued that the spread of wage labour should come with a mandate for employers to pay employees wages high enough to support themselves. There was never a consensus on how to define a living wage, although several governments and administrative bodies took up the task of developing complex formulas. There are several approaches used to define a living wage. In the United States there are a few formulas that are used to measure the basic cost of living for different-sized families (e.g., two adults, two children), and by region. The formulas are similar, and use government data to estimate the minimum costs for housing, food, shelter, transportation, health care, taxes and childcare.<sup>4</sup>

Alongside the notions of the minimum wage and the living wage, there is also the concept of fair wages. As per study made by International Labour Conference, 12 dimensions of the concept of fair wages have been identified, in particular: wages must be paid regularly and in full to the workers; they must comply with the minimum wage regulations and at least correspond to the living wage; they should not require excessive working hours; they must lead to a balanced wage structure; free of discrimination; take into account different levels of education, skills and professional experience and reward individual and collective performance. From this viewpoint, the minimum wage and living wage can be seen as components of the broader concept of fair wages.<sup>5</sup>

The International Labour Organization (ILO) defines the Minimum Wage as the salary which constitutes the floor of the wage structure; its objective is to protect workers who occupy the lowest position in wage distribution (ILO, 2008, p. 34). According to international standards, the Minimum Wages is analogous to the lowest monetary value which may be paid to workers in a region and a point in time, either through existing acts or through collective bargaining. In some countries it is determined by law, while in others it is determined through tripartite dialogue (by means of a negotiation including workers' representatives, employers and the government), or through collective agreements (with negotiations between workers and employers). The minimum wage is generally related to a survival standard which is considered basic in a given society, and has the purpose of safeguarding the income and living conditions of workers who are considered to be the most vulnerable in the labour market and that of their families. This means the insertion of a moral or ethical dimension in price formation (through the introduction of a limit which is inferior to the price given to labour force), based on political criteria for establishing the value of labour and the reasonable living conditions in some societies.<sup>6</sup>

The Minimum Wage is one of the most used instruments for affecting the wage distribution on the labour market. In fact, minimum wage is provided by law in 90% of the world's countries; however, its implementation varies highly in both approach and effectiveness across countries. Because of its potential redistributive effect, setting a minimum wage as a matter of policy is a contentious political issue and object of controversies among the government, workers' organizations and employers. Despite the controversy, there still lacks a coherent debate about effective minimum wage implementation strategies.

The minimum wage is the subject of substantial theoretical as well as political controversy. The intended objectives of establishing minimum wages are to prevent the exploitation of workers by employers, to promote fair wage structure, to provide a minimum acceptable standard of living for low paid workers and, eventually, to alleviate poverty, especially among working families. There are two basic mechanisms for setting the minimum wages. First, a statutory minimum wage set by the government, possibly involving consultation with trade unions and employers. Second, minimum wages are determined through collective (tri-partite or bipartite) negotiations. In setting minimum wages governments or bargaining parties need to reconcile to opposite kinds of considerations. On the one hand, there are social considerations of workers' need, standard of living and earnings inequality, which lead to pressure coming usually from labour union to increase minimum wage. On the other hand, there are economic considerations of productivity, competitiveness, employment creation, which result in pressure usually originating from employers' organization to keep the minimum wage at low level. The ILO balanced these two kinds of considerations and to account for both the needs of employees and employers under various Conventions and Recommendations.

#### **ILO's Conventions and Recommendations on the concept of wages and Minimum Wages:**

The concept of wages was fully discussed under International Labour Conference on 31<sup>st</sup> session which held in San Francisco in the year June 1948 and Protection of Wage Convention No.95 held in the year 1949. Also the International Labour Conference has adopted two Conventions and two Recommendations for minimum wage fixing machinery. These are the Minimum Wage-Fixing Machinery Convention, 1928 (No. 26), and the Minimum Wage Fixing Machinery Recommendation, 1928 (No. 30); and the Minimum Wage Fixing Machinery (Agriculture) Convention, 1951 (No. 99) and the Minimum Wage Fixing Machinery (Agriculture) Recommendation, 1951 (No. 89). Thereafter ILO has also adopted Minimum Wage Fixing Convention, 1970 (No. 131) and Minimum Wage Fixing Recommendation, 1970 (No. 135). All these Conventions and Recommendations helpful to constitute socially accepted minimum wage fixing machinery to member state for economic development.

According to Protection of Wage Convention No.95 which held in 1949, the wage must be gross wages which covers taxes, social security, contributions and other statutory deduction. Wage means remuneration or earning calculated in terms of money which is fixed by mutual agreement or by national laws to a person for work done or for other service rendered. The Protection of Wage Convention states that, wages must be paid in cash, in regular, in time, in money, and paid by competent authority without unauthorized deduction.

International Labour Conference which held in San Francisco in the year June 1948, discussed the nature of wages as, 'wages are income while the employer they are cost'. All income received by a wage earner, for some elements in his income, such as unemployment compensation and family allowances are not wages, though they may be financed largely out of contribution drawn directly or indirectly from wages. The receiving the share in profit or earns production bonuses, remuneration from such sources, may be treated as part of wages but the cost of production and certain kind of income are excluded from the definition of wages. Also according to the International Labour Conference the economic functions of wages depends on distribution of National income and wages, and allocation of economic resources and wages. The distributions of National income made from four factors of production i.e. land, labour, capital and enterprise which is in the form of rent, wages, interest and profits respectively. The most of the areas the great majority of workers receives the whole of their share of National income in the form of wages. Another economic function of wages is influenced on proportion of allocation of economic resources. The cost of production helps to determine the quantity of labour with the quantity of capital.<sup>7</sup>

International Labour Conference stated that, the system of wage payment is combinations of two fundamental principles, one is payment by time and other is payment by results. In payment by time system each worker is paid a predetermined total for every single hour, day or week, workers can be engaged in tasks specified by his employer, irrespective of the work he does in enough time. The other is payment by result, the employee is paid a wage that bears some fairly direct and continuous respect to his output or performance, or to the typical output of the cluster of employees to that he belongs. The system might embrace a secured minimum wage, therefore assuring the employee that no matter his output could also be his hourly or daily earnings won't fall below a specified amount.

The Tenth Session of the International Labour Conference, 1927 discussed the main object of the minimum wage legislation. The main object of the labour legislation enacted was to secure reasonable minimum conditions, and beyond these to permit complete freedom. The chief object of minimum wage legislation is to prevent remuneration at rates below the real value of the work done, and the consequent reduction in the efficiency of the workers. The two other objects are sometimes mentioned in connection with minimum wage legislation, namely, the development of organization and the promotion of industrial peace.

Minimum Wage Fixing Convention No. 131 and Protection of Wage Convention No. 95, and other ILO instruments observed that the minimum wage and living wage can be seen as components of the broader concept of fair wages. The wages

must be paid regularly and in full to the workers; they must comply with the minimum wage regulations and at least correspond to the living wage; they should not require excessive working hours; they must lead to a balanced wage structure; free of discrimination; take into account different levels of education, skills and professional experience and reward individual and collective performance. The Minimum Wage Fixing Convention No. 131 established a system of minimum wages. The main objective of minimum wage fixing is reducing poverty by establishing a generally applicable lower limit under which wages are not permitted to fall. The fixing of such general minimum wages normally is associated with the view that all workers, as a matter of right, ought to receive protection against unacceptably low wages. The minimum wage has to be fixed taking into account economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.<sup>8</sup>

Minimum Wage Fixing Recommendation No. 135 provides details on the scope of application of minimum wage system. The objectives of Recommendation No. 135 is fixing minimum wages, which should constitute one element in a policy designed to overcome poverty and to ensure the satisfaction of the needs of all workers and their families, and should have as their fundamental purpose to give wage earners necessary social protection as regards minimum permissible levels of wages. Hence Convention No. 131 and Recommendation No. 135 not only at overcoming poverty, but also at increasing the general level of wages and promoting rapid growth and the equitable distribution of national income.

The Convention No. 131 is based on the idea that to protect wages, which are generally the only means of subsistence of workers, from the effects of market competition, and to prevent a race to the bottom. By the same token, its implementation helps to ensure conditions of fair competition between employers. The minimum wages are used to reduce wage inequality, especially between men and women. The minimum wage policy is also an instrument of employment policy, including through the establishment of differentiated minimum wage rates for young workers as part of a policy of promoting youth employment. In some countries, the minimum wage acts as a social floor and a benchmark for determining the amounts of certain social benefits. Although the pursuit of these various goals may be entirely legitimate, it is nonetheless desirable not to assign too many goals, which may even be contradictory, to minimum wage policy.

#### **Impact of minimum wages policy on World countries:**

The minimum wage is provided by law in 90% of the world's countries, however, its effectiveness and implementation across countries varies highly in its potential redistributive effect. The setting a minimum wage as a matter of policy is a contentious political issue and object of controversies among the government, employers and workers' organizations.

It can be seen that minimum wage legislation developed from colonial period. Thereafter it developed from developed countries to under developing countries. New Zealand in 1894 first time enacted minimum wage laws thereafter, Australia, United Kingdom, United States, and France etc. All these countries have the longest practice in applying a single national minimum wage laws in their countries. The developing countries have regularly increased their minimum wages to provide social protection to vulnerable and non-organized categories of workers. The countries like Argentina, Brazil, China, Egypt, South Africa and Nigeria introduced minimum wage laws to support the wages of millions of low-paid farm workers, hospitality workers, domestic workers and others. The minimum wage policy in Indonesia and Brazil is corresponding to minimum living needs, which cover food, fuel, housing, clothing, transport and other needs. In Nigeria, the determination of minimum wage falls on the federal government. In India the National Wage Policy is usually used as a principle in social welfare and poverty reduction macro-economic policy.

A number of countries around the world have experienced positive changes which have contributed to this change in perception. In the United Kingdom, the national minimum wage introduced in 1999 as the most successful government policy of the past 30 years. In emerging countries, too, minimum wages are making a strong comeback. In Brazil the reactivation of the national minimum wage since 1995 is widely credited together with *Bolsa familia*, a cash transfer programme for the recent reduction in poverty and inequality (Berg and Tobin, 2011). In South Africa, wage floors were introduced in 2002 to fight the racial discrimination introduced under apartheid and to support the wages of millions of low-paid farm workers, hospitality workers, domestic workers and others in sectors where unions are weak. In China, new regulations were issued in 2004 in the face of growing concerns about increasing wage inequality. Finally, in Egypt and other countries rejuvenated by the "Arab Spring", governments have been forced to respond to the demands for minimum wages by young revolutionaries and trade unionists.<sup>9</sup>

The minimum wages policy is a useful and relevant tool which can make a major contribution to social justice by improving the lives of low-paid worker. All the above mentioned countries adopted minimum wage concept and framed minimum wages policy accordance with ILO's guidelines. India was one of the first developing countries to introduce a minimum wage policy. In India the minimum wages policy is a useful and relevant tool for improving the lives of low-paid worker. The Minimum Wage Act of 1948 is one of the most important pieces of

labour legislation which prevent exploitation of labour. The Minimum Wage Act, 1948 also maintains standardization of wages which involves not only raising the wages but also lowering the wages. Also minimum wage legislation normally leads to a rise in nominal wage which justified as a means of adjusting wages and salaries to match the rise in cost of living.

The above discussion it is clear that, one of the aims of ILO is to improve working and living conditions of working class and enhance the employment opportunities for them by providing minimum wages. The ILO creates International labour standards by way of giving unique system of minimum wage concept. To claim Minimum wages is an important right to human dignity at the workplace. Various Conventions and Recommendations on minimum wages formulate the minimum wage policy for improving working and living conditions and promote higher living standards. These Conventions and Recommendations not only at overcoming poverty, but also at increasing the general level of wages and promoting rapid growth and the equitable distribution of national income. Therefore world countries began to adopt minimum wage policy which framed by the ILO and extending wage protection to larger numbers of workers.

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